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[BOLIVIA: The new government led by retired Colonel Hugo Banzer is avowedly anti-Communist and will reverse the leftist policies of the Torres regime. A political conservative, Banzer probably will adopt a moderate nationalist stance while remaining receptive to foreign investment.

The government's control is firm but it is likely to experience many strains in its formative period. Banzer is inheriting a chaotic financial and political situation. The old hatreds between the military, who are likely to be the leading force in the coalition, and the two political parties that participated in the coup are strong. Moreover, past bitterness between the moderate leftist National Revolutionary Movement (MNR) and the moderate rightist Bolivian Socialist Falange (FSB) may make it difficult for them to cooperate in the new government.

Banzer, at least initially, probably will receive strong support from leaders of the private sector who provided financial backing for the coup. Other governments in Latin America, concerned by Bolivia's leftist drift under Torres, will extend moral support, if not rapid recognition.

Late yesterday Banzer appointed most of his cabinet, which appears to be evenly split between the MNR and the FSB. The foreign minister, Mario Gutierrez, is a respected member of the FSB. Finance Minister Raul Lema, an MNR leader, served in the government of President Paz Estenssoro in 1964.

All organized resistance has ended in La Paz and the interior, although armed civilians are still at large. Some sniping, looting, and terrorist activity remains a possibility in coming days. In addition, leftist organizations have called for a general strike, according to press reports.

The government faces a difficult problem in working toward restoring a degree of harmony among contending political groups. The bitterness and violence of the recent period could continue if the new administration indulges in repressive action against the left. (CONFIDENTIAL)]

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INTERNATIONAL MONETARY DEVELOPMENTS: Most foreign exchange markets are likely to be open today, following a week-long hiatus, with each country implementing its own arrangements.

The Japanese market, which remained open all of last week, was open again today, with the Bank of Japan maintaining the yen at its old parity. Trading in Europe will resume about where it left off one week ago. The British, Italians, Austrians, and Swedes will reopen their markets without changing parities, although British and Italian authorities will permit some floating within a three-to-four percent band around parity. The Norwegian market is expected to open later in the day after a new parity is fixed. The Germans and the Dutch will continue floating their currencies, although the Dutch will re-establish the parity of the guilder with the Belgian franc and both will float against the dollar. France will implement its two-tier system. The Swiss financial market will remain closed at least until Tuesday.

Trading conditions will probably be hectic and confused because of the backlog of foreign exchange transactions and the diversity of trading arrangements, but the various central banks are likely to intervene in the market to prevent erratic fluctuations and further substantial appreciation of their currencies vis-a-vis the dollar. The dollar is expected to be devalued about five to ten percent in the free tier of the French market (in which about 20 percent of French foreign exchange transactions are likely to take place) and about two percent in the British and Italian markets. In the German market the dollar is likely to be devalued an additional two percent beyond the eight percent it has already declined.

Pierre-Paul Schweitzer, managing director of the International Monetary Fund, has asked for a meeting of the Group of Ten before the scheduled

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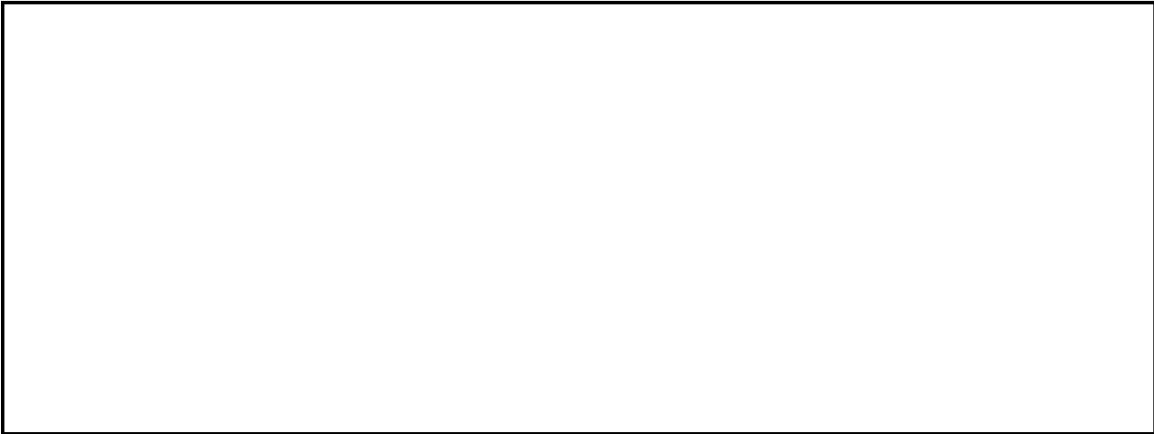
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[date of 15 September. It is believed that Schweitzer has been advised of an adjustment package for the ten leading fund currencies and that he may suggest a new system of parities. Schweitzer spoke with the senior Japanese delegation visiting the US on the implications of a parity change for Japan. The Benelux countries are also pressing for early consultations among the European Communities (EC) finance ministers.



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CEYLON-USSR: The two countries have signed a fisheries agreement that will permit a further increase in the Soviet presence in the Indian Ocean.

The agreement provides for Soviet training of Ceylonese fishermen, joint fishing operations from the port of Galle, and the delivery of Soviet fishing ships. In return Ceylon is to make available facilities to Soviet fishing ships in both Colombo and Galle.

Prime Minister Bandaranaike and several other cabinet members gave reluctant approval to the agreement only after Ceylonese efforts to interest certain Free World countries in the project proved to be unsuccessful. For its part, the USSR has been pushing for an agreement since late last year, with substantial help from Colombo's pro-Soviet minister of fisheries. (SECRET NO FOREIGN DISSEM)

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South Africa: Bantustans



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SOUTH AFRICA: A special division has been established within the Ministry of Bantu Administration to determine "final borders" for homelands for the eight major tribal groups.

The establishment of separate--and in theory eventually self-governing--homelands for each of the African tribal units is the cornerstone of the regime's racial policy. The objective of the new division will be to draw up homeland borders in as uncomplicated a way as possible, taking into account such factors as access to roads and railroads by defense forces. In order to achieve this, planners will have to consolidate fragmented reserve areas and eliminate enclaves of one race from areas occupied primarily by other racial groups. The plan is expected to be completed by 1974.

The problems involved are staggering, however. The entire concept is politically contentious among both whites and blacks; the former are reluctant to sell their land, and the latter are unlikely to settle for the 13 percent of the land now allocated to them. Zululand is composed of some 200 scattered black areas interspersed with white areas and is demanding a major seaport now being built for the use of whites.

Although the final planning may be concluded within three years, the actual purchase and consolidation of the land will take decades. Between 1963 and 1970 the government purchased about ten million acres of land. At this rate, consolidation would not be achieved for at least 25 more years. (CONFIDENTIAL)

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EQUATORIAL GUINEA: President Macias has quietly but forcefully moved against hostile tribal elements.

Macias apparently has the situation in hand, and Santa Isabel is reportedly quiet. Some 160 persons on the island capital of Fernando Po have been jailed, including every prominent leader of the minority Bubi and Fernandino tribes, a half-dozen Nigerian citizens, and two local US Embassy employees. This followed the expulsion of an unidentified Spaniard on 15 August for allegedly loaning \$1.7 million to Vice President Bosio, who was subsequently put under house arrest along with the president of the National Assembly, a fellow Bubi. No one has yet been accused, however, of antiregime plotting.

Economic stagnation and harsh repression have caused great discontent on Fernando Po. The mercurial and anti-Spanish Macias, leader of the politically dominant Fang tribe on mainland Rio Muni, has always feared that the economically advanced islanders, who have resented the intrusion of the Fangs, might unite with local Nigerian laborers and Spanish businessmen in opposition to his regime. The reputed loan to the vice president could have prompted a pre-emptive move by Macias against these suspect elements. On the other hand, it is possible that the popular vice president was organizing a coup coalition.

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Fresh charges of subversion may now be leveled against Madrid, jeopardizing not only the present detente with the ex-metropole but newly signed aid agreements as well. Washington, already suspected of abetting a commercial fraud by a US company, could also be implicated. (CONFIDENTIAL)

NOTE

COMMUNIST CHINA - US - UN: Peking's denunciation of the US "dual representation" proposal, issued by the Foreign Ministry on 20 August, represents Communist China's official response to Washington's inscription of its proposal on the General Assembly agenda. The statement, primarily a low-key exposition of Peking's position, accuses the US of pushing a "two-Chinas" policy, firmly declares this in any version is totally unacceptable to the Communist government, and reiterates that the mainland regime will not enter the UN unless the Nationalist government is first expelled. By restating these uncompromising terms Peking probably hopes to convince wavering states that no "deal" on the representation issues was reached with Dr. Kissinger last month and that passage of the US resolution would mean that the mainland regime would remain outside the UN for at least another year. (CONFIDENTIAL NO FOREIGN DISSEM)

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